Message Text

LIMITED OFFICIAL USE

PAGE 01 ADDIS 01899 01 OF 03 171105Z

46
ACTION AF-06

INFO OCT-01 ISO-00 EUR-12 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 H-02 PA-01 PRS-01 AGR-05 FS-01

ABF-01 IGA-02 FEAE-00 INT-05 PM-04 DODE-00 /111 W
--------------------- 114325
R 170621Z FEB 76
FM AMEMBASSY ADDIS ABABA
TO SECSTATE WASHDC 8164
INFO AMCONGEN ASMARA
AMEMBASSY KHARTOUM
AMEMBASSY LONDON
AMEMBASSY MOGADISCIO
AMEMBASSY NAIROBI
AMEMBASSY PARIS

LIMITED OFFICIAL USE SECTION 1 OF 3 ADDIS ABABA 1899

E.O. 11652: N/A
TAGS: EGEN ET EALR
SUBJECT: ETHIOPIA'S CURRENT ECONOMIC SITUATION

REF: A) ADDIS 9877, B) ADDIS 1242, C) ADDIS 1772, D) ADDIS 0578

1. SUMMARY. AGRICULTURAL PRODUCTION OF CEREALS, OIL SEEDS, AND PULSES FOR THE PAST CROP YEAR IS 5-10 PERCENT ABOVE 1974/75 LEVELS AND THE BEST IN RECENT YEARS. NEVERTHELESS, OWING TO POTENTIAL PROBLEMS WITH DISTRIBUTION AND MARKETING NOTED IN PREVIOUS REPORTING, THE AMOUNTS OF GRAINS LIKELY TO BE AVAILABLE TO URBAN DWELLERS IS STILL UNCERTAIN. COFFEE PRODUCTION REMAINS GOOD AND EXPORT EARNING SHOULD BE WELL ABOVE PAST FEW YEARS BE-CAUSE OF STRONG INTERNATIONAL COFFEE PRICES. SESAME AND HARICOT BEAN PRODUCTION IS OFF SHARPLY BUT SUGAR PRODUCTION SHOULD BE BETTER
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ADDIS 01899 01 OF 03 171105Z

THAN LAST YEAR. COTTON PRODUCTION LOOKS GOOD EXCEPT FOR THE SUDAN

BORDER REGION WHERE LOCAL SECURITY CONDITIONS AND POSSIBLY LAND REFORM CAUSED GREATLY REDUCED PLANTING. MANUFACTURING OUTPUT IN GENERAL IS HOLDING UP WELL. PRIVATE CONSTRUCTION IS STILL ALMOST NON-EXISTENT AND GOVERNMENT SPONSORED CONSTRUCTION HAS INCREASED ONLY MARGINALLY SINCE THE BEGINNING OF THE DRY SEASON. UNEMPLOY-MENT, ESPECIALLY OF CONSTRUCTION WORKERS, REMAINS A MAJOR PROBLEM FOR THE EPMG, ALTHOUGH THE NUMBER OF NEW ENTRANTS INTO THE LABOR MARKET IS REPORTEDLY DOWN AND CASUAL LABOR EMPLOYMENT HAS INCREASED SEASONALLY OWING TO INCREASED COFFEE EXPORTS. THERE HAVE BEEN NO STRIKES DURING THE PAST SEVERAL MONTHS AS A RESULT OF THE GOVERN-MENT'S STERN OPPOSITION TO STRIKES AS WELL AS WORK SLOWDOWNS. RETAIL TRADE, WHILE WEAK IN CERTAIN AREAS, GENERALLY COMPARES WITH 1974 LEVELS. THE GOVERNMENT HAS SUBSTANTIALLY INCREASED ITS PURCHASES, PARTIALLY OFFSETTING A DECLINE IN SALES TO THE PRIVATE SECTOR.
A MAJOR PROBLEM WHICH HAS EMERGED DURING THE PAST SIX MONTHS IS A SHARP INCREASE IN THE RATE OF INFLATION--UP 16 PERCENT DURING CY 1975. BANKING ACITIVITY HAS INCREASED SLIGHTLY COMPARED TO SIX MONTHS AGO BUT LACK OF PUBLIC CONFIDENCE IN BANKS IS STILL A MAJOR PROBLEM. PRIVATE INVESTMENT IS ALMOST NON-EXISTENT AND INVESTMENT BY THE GOVERNMENT IN MANUFACTURING AND RELATED ACTIVITIES STILL IS NOT UNDERWAY. ETHIOPIA'S EXTERNAL POSITION IS VERY STRONG WITH RESERVES AT AN ALL-TIME HIGH AND GOOD EXPORT EARNING PRXPECTS. IN SUM, ETHIOPIA'S OVER-ALL ECONOMIC SITUATION IS FAIRLY GOOD, ESPECIALLY IN VIEW OF THE MAJOR RESTRUCTURING IF THE ECONOMIC SYSTEM WHICH HAS OCCURRED DURING THE PAST 12 MONTHS. THE GOVERNMENT, HOWEVER, HAS FAILED TO RESTORE CONFIDENCE IN THE PRIVATE SECTOR, HAS NOT BEEN ABLE TO IMPLEMENT AN ADEQUATE INVESTMENT PROGRAM WHICH IS CLEARLY REQUIRED IF THE ECONOMY IS TO GROW AND NOW FACES AN INCREASING RATE OF INFLATION WHICH COULD CAUSE MAJOR PROBLEMS--BOTH ECONOMICALLY AND POLITICALLY--DURING THE NEXT FEW MONTHS. END SUMMARY.

2. AGRICULTURE.

A. WITH THE HARVEST WELL UNDERWAY IN MOST AREAS AND COMPLETED IN SOME, ALMOST ALL INFORMED OBSERVERS AGREE THAT 1975/76 AGRICULTURAL PRODUCTION OF CEREALS, OIL SEEDS (EXCEPT SESAME) AND PULSES (EXCEPT HARICOT BEANS) IS 5-10 PERCENT ABOVE 1974/75 LEVELS AND ONE OF THE BEST IN RECENT HISTORY. WEATHER CONDITIONS WERE ALMOST IDEAL, PROBABLY MORE LAND WAS CULTIVATED AS A RESULT OF LAND

REFORM (FORMER TENANTS APPARENTLY INCREASED HECTARAGE UNDER CULTIVATION IN AN ATTEMPT TO INCREASE THE CLAIMS ON LAND IN ANTICIPATION OF LAND REDISTRIBUTION) AND THE GOVERNMENT DID A REASONABLE JOB IN MANAGING THE COMMERCIAL FARMS THEY TOOK OVER. COMMERCIAL FARM CEREAL OUTPUT DECLINED BY SOME 200,000 TONS, HOWEVER, AS SOME WERE TURNED BACK TO PEASANTS INDIVITUALLY OR FOR COMMUNAL FARMING (PRODUCTION FROM THESE AREAS HAS BEEN COUNTED IN THE PEASANT SECTOR) AND IN THE SETIT HUMERA/METEMA REGION

COMMERCIAL FARM PLANTINGS WERE OFF SUBSTANTIALLY OWING TO SECURITY PROBLEMS AND POSSIBLY THE LAND REFORM PROGRAM.

B. DISTRIBUTION AND MARKETING ARE MUCH GREATER CONCERNS THAN PRODUCTION. PHYSICAL SUPPLY PROBLEMS IN URBAN AREAS (POSSIBLE SHORTAGES OF VEHICLES, SPARE PARTS, FUEL AND STORAGE FACILITIES) MAY REDUCE TOTAL MARKETED SUPPLY. AS INDICATED IN ADDIS 12028 (1975) INCREASED FARM CONSUMPTION,UNCERTAINTIES REGARDING THE ROLE OF THE PRIVATE TRADE, CONTINUED DISRUPTION IN THE COUNTRYSIDE AND ABSENCE OF THE FORMER LANDLORD RURAL-URBAN MARKETING LINK COULD ALSO RESULT IN INADEQUQTE SUPPLIES IN MARKET-DEPENDENT URBAN AREAS.

C. EXPORT CROP PRODUCTION IS MIXED, WITH COFFEE OUTPUT UP SUBSTANTIALLY OVER LAST YEAR (PROBABLY 75-80,000 TONS AVAILABLE FOR EXPORT) WHILE HARICOT BEANS AND SESAME SEED PRODUCTION IS OFF DRASTICALLY (60 PERCENT FOR SESAME, 80 PERCENT FOR HARICOTS). BOTH OF THESE CROPS WERE PREVIOUSLY RAISED ON COMMERCIAL FARMS WHICH WERE EITHER NOT PLANTED TO THOSE CROPS THIS YEAR OR WERE NOT PLANTED AT ALL OWING TO LOCAL SECURITY CONDITIONS. PRODUCTION OF COTTON IS EXPECTED TO BE AT OR ABOVE PREVIOUS LEVELS IN THE RIFT VALLEY AND AWASH VALLEY REGIONS; METEMA, SETIT HUMERA AND ASSAITA PRODUCTION IS OFF CONSIDERABLY BUT OVER ALL ETHIOPIA WILL HAVE SUFFICIENT COTTON FOR ITS MILLS DURING 1976 AND WILL PROBABLY EXPORT APPROXIMATELY 5,000 TONS OF HIGH QUALITY COTTON PRODUCED ON THE TENDAHO PLANTATION IN THE LOWER AWASH VALLEY. AS COTTON IS IRRIGATED, THE FARM MANAGER, RATHER THAN THE WEATHER, ARE RESPONSIBLE FOR THE EXCELLENT PERFORMANCE. PRODUCTION OF SUGAR IS ALSO EXPECTED TO INCREASE THIS CROP YEAR FROM 129,000 TONS TO 134,000 TONS OF WHICH 30,000 TONS WILL BE EXPORTED AS REFINED SUGAR AND 25-30,000 TONS WILL BE EXPORTED AS MOLASSES.

3. MANUFACTURING, CONSTRUCTION AND EMPLOYMENT.

A. MANUFACTURING ACTIVITY IN GENERAL (EXCLUDING ERITREA) CONTINUES AT ABOUT 1974 LEVELS. SOME SECTORS ARE DOING BETTER AS ERITREAN PRODUCTS ARE NOT AVAILABLE IN THE SAME QUANTITIES AS IN 1974 (BEER, TEXTILES, FOOD PRODUCTS) WHEREAS OTHER SECTORS CONTINUE TO SUFFER FROM THE LOW LEVEL OF PRIVATE CONSTRUCTION ACTIVITY (CEMENT, OTHER BUILDING MATERIALS, ETC.). INDUSTRIAL ELECTRICAL CONSUMPTION, WHICH IS SLIGHTLY LOWER THAN 1974, CONFIRMS THIS ASSESSMENT. PRIVATE AND RETAIL BUSINESS ELECTRICAL CONSUMPTION CONTINUES TO BE CONSIDERABLY (5-10 PERCENT) BELOW 1974 HOWEVER. THE SHORTAGE OF PETROLEUM PRODUCTS HAS NOT AFFECTED MANUFACTURING ACTIVITY TO ANY APPRECIABLE EXTENT.

B. ALTHOUGH THE RAINY SEASON HAS BEEN OVER FOR SEVERAL MONTHS, PRIVATE CONSTRUCTION ACTIVITY HAS NOT REPEAT NOT RESUMED.

THIS HASSERIOUS EFFECTS ON THE EMPLOYMENT SITUATION AS
NOTED BELOW. PUBLIC CONSTRUCTION IS CONTINUING AT PREVIOUS
LEVELS FOR ROAD AND WATER SYSTEM IMPROVEMENTS IN ADDIS
RESULTING IN 10-12,000 JOBS. CONSTRUCTION OF OFFICE BUILDINGS
HAS RESUMED BUT MOSTLY ON BUILDINGS WHICH WERE PARTIALLY
COMPLETED AT THE TIME OF URBAN LAND NATIONALIZATION.
C. EMPLOYMENT IN MANUFACTURING CONTINUES AT PREVIOUS LEVELS
BUT THE ABSENCE OF PRIVATE CONSTRUCTION ACTIVITIES AND THE
LOW LEVEL OF MAINTENANCE OF NATIONALIZED HOUSING HAS RESULTED
IN SERIOUS UNEMPLOYMENT FOR CONSTRUCTION WORKS. WHLE THE
NUMBER OF WORKERS UNEMPLOYED IN THIS SECTOR HAS PROBABLY NOT
INCREASED (AND MAY HAVE DECLINED MARGINALLY OWING TO RESUMED
OFFICE BUILDING CONSTRUCTION AND THE BEGINNING OF SOME
PUBLIC HOUSING CONSTRUCTION) THOSE WHO REMAIN UNEMPLOYED

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 ADDIS 01899 02 OF 03 171154Z

46
ACTION AF-06

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 H-02 PA-01 PRS-01 AGR-05 FS-01

ABF-01 IGA-02 FEAE-00 INT-05 PM-04 DODE-00 /111 W
--------------------- 114892
R 170621Z FEB 76
FM AMEMBASSY ADDIS ABABA
TO SECSTATE WASHDC 8165
INFO AMCONGEN ASMARA
AMEMBASSY KHARTOUM
AMEMBASSY LONDON
AMEMBASSY MOGADISCIO
AMEMBASSY NAIROBI
AMEMBASSY PARIS

LIMITED OFFICIAL USE SECTION 2 OF 3 ADDIS ABABA 1899

ARE EXPERIENCING SEVERE HARDSHIPS. FORTUNATELY, NEW ENTRANTS

INTO THE LABOR MARKET FROM RURAL AREAS HAVE DECLINED OWING TO GOOD HARVESTS IN THE COUNTRYSIDE AND CASUAL LABOR ASSORTIATED WITH COFFEE EXPORTS IS ALSO UP. THE EPMG IS ATTEMPTING TO PLACE UNEMPLOYED INDIVIDUALS IN JOBS IN GOVERNMENT AND THE PRIVATE SECTOR BUT THE SKILLS THESE POSITIONS REQUIRE USUALLY DO NOT MATCH THOSE POSSESSED BY THE UNEMPLOYED. THIS MISMATCH WILL PLAGUE EFFORTS OF THE EPMG TO REDUCE UNEMPLOYMENT FOR THE FORESEEABLE FUTURE. LABOR DISCIPLINE HAS IMPROVED DURING THE PAST SEVERAL MONTHS WITH THE GOVERNMENT TAKING A VERY HARD LINE ON STRIKERS AND WORK SLOWDOWNS. IN FACT, THERE HAVE BEEN NO STRIKES SINCE LAST FALL. THE NEW LABOR LAW HAS BEEN WELL RECEIVED BY EMPLOYERS AND HAS NOT AFFECTED THEIR OPERATIONS TO ANY SIGNIFICANT DEGREE. THERE IS STILL UNCERTAINTY ABOUT WAGE POLICY, HOWEVER, AS THE NEW LAW DID NOT

SPECIFY EITHER A MINIMUM WAGE OR MAXIMUM SALARY LEVEL. MOST OBSERVERS EXPECT FURTHER GOVERNMENT ACTION WITH RESPECT TO THESE ISSUES.

4. RETAIL TRADE AND PRICE TRENDS.

A. IN GENERAL, RETAIL TRADE HAS HELD UP VERY WELL AND MAJOR TRADING COMPANIES REPORT THAT 1975 PROFITS WERE AS GOOD AS 1974. CERTAIN CONSUMER ITEMS HAVE BEEN MOVING AS PEOPLE HAVE PREFERRED TO HOLD GOODS RATHER THAN MONEY BECAUSE OF THE UNCERTAIN POLITICAL CLIMATE. THE GOVERNMENT CONTINUES TO BE A MAJOR PURCHASER OF VEHICLES, RADIO EQUIPMENT AND SIMILAR ITEMS CONNECTED WITH GOVERNMENT PROGRRAMS AND ACTIVITIES. NEVERTHELESS, GOVERNMENT PURCHASE OF TRUCKS AND TRACTORS HAS DECLINED COMPARED TO SIX MONTHS AGO AS HAVE PRIVATE PURCHASES OF CARS. SPARE PARTS CONTINUES TO BE A VERY PROFITABLE BUSINESS, PARTLY BECAUSE PRICE CONTROLS HAVE ELIMINATED SOME COMPETITION AND HAVE ASSURED ADEQUATE MARGINS TO DEALERS. PRIVATE PRUCHASE OF ITEMS SUCH AS SMALL FLOUR MILLS, BUILDING MATERIALS, ETC., HAS PRACTICALLY CEASED; CLEAR EVIDENCE OF THE LACK OF SUCCESS OF GOVERNMENT POLICIES DESIGNED TO REASSURE THE PRIVATE SECTOR.

B. PRICE TRENDS. BASED ON OFFICIAL EPMG FIGURES ETHIOPIA EXPERIENCED A VERY SHARP INCREASE IN RETAIL PRICES DURING THE LAST HALF OF CY 1975. FOR THE YEAR AS A WHOLE THE RETAIL PRICE INDEX WENT UP BY 16 PERCENT-AN ASTONISHING INCREASE WHEN COMPARED WITH THE 1974 INCREASE WHICH WAS ONLY 6 PERCENT. FOOD INFLATION WAS EVEN MORE PRONOUNCED AT 20 PERCENT ALTHOUGH CEREALS PRICES (THE STAPLE ITEM FOR THE VAST MAJORITY OF ETHIOPIANS) INCREASED BY 8.5 PERCENT. THE CURRENT GENERAL RETAIL INDEX FOR JANUARY 1976 STANDS AT 188.8 (1963 EQUALS 100) THE HIGHEST EVER WHILE FOR FOOD IT IS 199.2 (ALSO THE HIGHEST EVER) AND FOR CEREALS 170.5 WHICH IS SENCOND ONLY TO 1970 WHEN IT REACHED 180.3. THESE INCREASES HAVE OCCURRED

MAINLY DURING THE LAST HALF OF CY 1975 AND MAY REFLECT INCREASED
CONSUMER PURCHASING POWER, A SHIFT IN CONSUMER PREFERENCE FROM
SAVINGS TO CONSUMPTION AND A SHORTAGE OF SOME GOODS WHICH
USED TO BE PROVIDED BY ERITREA. THE CASE OF CEREALS IS MORE
DIFFICULT TO ACCOUNT FOR AS THE CORP OUTTURN IS REPORTEDLY VERY
GOOD. POSSIBLE EXPLANATIONS INCLUDE (1) REDUCTION IN TRANSPORTATION
OF CEREALS, (2) EFFECTS OF EPMG PRICE SUPPORTS FOR FARMERS-BOTH

ACTUAL AND ANTICIPATED PURCHASES BY THE GOVERNMENT MAY HAVE
CAUSED FARMERS AND PRIVATE MERCHANTS TO HOLD OUT FOR HIGHER
PRICES, 12(3) FARMER DESIRE TO INCREASE ON-FARM CONSUMPTION AND
(4) BREAKDOWN IN THE PRIVATE CEREAL TRADE SYSTEM. REGARDLESS
OF THE REASON, THE RAPID INCREASE IN THE COST OF LIVING CERTAINLY
CONTAINS THE SEEDS OF URBAN DISCONTENT AND COULD CAUSE MAJOR
DIFFICULTIES FOR THE GOVERNMENT. IT ALSO SHOULD BE NOTED
THAT THE IMPORT COMPONENT OF THIS INCREASE IS RATHER MODEST.
THE IMPORT PRICE INDEX WENT UP BY AN ESTIMATED 6 PERCENT
DURING 1975. EMBASSY/USAID ARE PREPARING A SEPARATE REPORT
ON THIS SITUATION.

5. TRANSPORTATION.

AS NOTED IN ADDIS 1242 SURFACE TRANSPORTATION BOTTLENECKS
HAVE DEVELOPED DURING THIS PEAK SEASON OF ECONOMIC ACTIVITY AND
WILL PROBABLY CONTINUE UNTIL SEREAL AND COFFEE TRANSPORTATION
REQUIREMENTS DECLINE. THE PORTS OF ASSAB AN DJIBOUTI ARE
WORKING NORMALLY AS IS THE ADDIS/DJIBOUTI RAILROAD. PRIVATE
BUS COMPANIES ARE FACING A SQUEEZE OWING TO INCREASED MAINTENANCE
COSTS, LACK OF FUEL (ESPECIALLY DURING PEAK DEMAND PERIODS SUCH
AS RELIGIOUS HOLIDAYS) AND A FALL-OFF OF TRAFFIC VOLUMN OVERALL.
AS NO FIRMS HAVE CEASED OPERATIONS, HOWEVER, THEY ARE APPARENTLY
ABLE TO COPE FOR THE TIME BEING.

6. BANKING AND INVESTIMENT.

A. BANKING ACTIVITIES HAVE PICKED UP SOMEWHAT OVER THE LEVELS
OF EARLY AND MID-1975 AS THE PRIVATE BUSINESS SECTOR AND THE
GENERAL PUBLIC HAVE PARTIALLY REGAINED CONFIDENCE IN THE BANKING
SYSTEM AND AS SOME OF THE MORE EXTREME RUMORS CONCERNING
ECONOMIC POLICY OF THE EPMG HAVE NOT PROVED TRUE. DEPOSITS
IN COMMERCIAL BANKS ROSE BY ETH$36 MILLION BETWEEN AUG-NOV
ALTHOUGH THE OCT 31 DEPOSITS (LATEST COMPLETE STATISTICS) WERE
STILL ETH$104 MILLION BELOW OCT 1974 LEVELS. DEMAND FOR PRIVATE
CREDIT HAS RISEN SOMEWHAT DUE TO THE RECENT PICK-UP IN IMPORT
AND EXPORT ACTIVITIES RELATED MAINLY TO SEASONAL FACTORS SUCH AS
INCREASED COFFEE EXPORTS. NOV 31 FIGURES SHOWED COMMERICAL BANK
OUTSTANDING LOANS ETH$65 MILLION BELOW 1974. FIGURES. THE
GOVERNMENT HAS INCREASED ITS BOWERING FROM THE NATIONAL BANK
TO FINANCE ITS EXPANDED ACTIVITIES AND THE DEVELOPMENT BANK

LIMITED OFFICIAL USE

(AIDB) HAS INCREASED AGRICULTURAL CREDIT TO THE STATE FARMS AND PEASANT ASSOCIATIONS. THE MONEY SUPPLY HAS REMAINED RELATIVELY STABLE IN RECENT MONTHS BUT SOME BANKING OFFICIALS ARE VERY CONCERN THAT THE EPMG'S DEFICIT FINANCING WILL ONLY CONTRIBUTE TO INFLATIONARY PRESSURES, WHICH ARE ALREADY UNDERWAY. THE EXPANSION IN CREDIT ALLOCATION FOR SUCH GOVERNMENT PROGRAMS WILL HAVE TO COME PRIMARILY FROM THE NATIONAL BANK AS THE SOMMERICAL BANKS' POTENTIAL FOR EXPANDED LOANS IS LIMITED UNLESS PRIMARY DEPOSITS GROW CONSIDERABLY. REORGANIZATION OF THE COMMERCIAL BANKING SECTOR WITH THE CONSOLIDATION OF THE THREE SMALL BANKS INTO ONE INSTITUTION KNOWN AS ADDIS BANK LEAVES THE COUNTRY WITH TWO COMMERICAL BANKS, BOTH GOVERNMENT OWNED. IN ADDITION, THERE HAVE BEEN CONSIDERABLE PERSONNEL CHANGES THROUGHOUT THE BANKING SYSTEM AND THE GOVERNMENT HAS NOT YET DEVELOPED NEW BANKING LEGISLATION TO REFLECT THE ALTERED ECONOMIC ENVIRONMENT IN ETHIOPIA. THESE FACTORS HAVE PROBABLY HAD A NEGATIVE EFFECT ON THE BANKING SYSTEM AS A WHOLE.
B. PRIVATE INVESTMENT REMAINS VERY LIMITED AT THE PRESENT TIME AND FOR THE FORESEEABLE FUTURE THE GOVERNMENT WILL PROBABLY BE THE ONLY MAJOR INVESTOR. WHILE THE CONFIDENCE OF THE COMMERCIAL SECTOR TOWARDS THE EPMG HAS IMPROVED IN THE PAST THREE MONTHS, NEITHER FOREIGN OR ETHIOPIAN PRIVATE INVESTORS ARE LIKELY TO COMMIT ANY INVESTMENT FUNDS INTO NEW VENTURES OR EXPANSION OF EXISTING COPERATIONS IN THE NEAR TERM. THE GOVERNMENT HAS AMBITIOUS DEVELOPMENT OBJECTIVES WHICH WERE SPELLED OUT IN ITS CURRENT BUDGET AND WHICH WILL REQUIRE SIGNIFICANT INVESTMENT.
THE IMPLEMENTATION OF THESE PROJECTS HAS BEEN SLOW TO MATERIALIZE DUE TO THE EXTENSIVE ORGANIZATIONAL EFFORTS WHICH HAVE BEEN NECESSARY AND PERHAPS AN UNWILLINGNESS ON THE PART OF CIVIL SERVANTS TO TAKE THE NECESSARY DECISIONS. THE EPMG IS PRESUMABLY MAKING A MAJOR ATTEMPT TO GET THESE PROJECTS UNDERWAY, BUT HOW SUCCESSFUL THESE EFFORTS WILL BE REMAINS TO BE SEEN.

7 EXTERNAL SECTOR.

ETHIOPIA'S EXTERNAL SECTOR REMAINS REMARKABLY HEALTHY ALTHOUGH AT THE EXPENSE OF SOME VITAL IMPORTS. FOR EXAMPLE, IMPORTS OF CAPITAL AND INTERMEDIATE GOODS PROBABLY DECLINED DURING THE LAST HALF OF CY 1975 WHILE CONSUMER GOODS MAY HAVE REMAINED AT CLOSE TO OR ABOVE RECENT LEVELS OWING TO INCREASED CONSUMER DEMAND.

NNN

46
ACTION AF-06

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 PRS-01 PA-01 AGR-05 FS-01

ABF-01 IGA-02 FEAE-00 INT-05 PM-04 DODE-00 /111 W
--------------------- 115447
R 170621Z FEB 76
FM AMEMBASSY ADDIS ABABA
TO SECSTATE WASHDC 8166
INFO AMCONGEN ASMARA
AMEMBASSY KHARTOUM
AMEMBASSY LONDON
AMEMBASSY MOGADISCIO
AMEMBASSY NAIROBI
AMEMBASSY PARIS

LIMITED OFFICIAL USE SECTION 3 OF 3 ADDIS ABABA 1899

WHILE PRUDENT MANAGEMENT OF FX RESERVES IS ALWAYS WISE, GREATER USE OF ETHIOPIA'S FX RESERVES FOR INVESTMENT PURPOSES SEEMS CALLED FOR IN LIGHT OF THE LARGE AMOUNT CURRENTLY IN HAND. MOREOVER, ETHIOPIA'S PROSPECTS FOR EXPORT EARNINGS ARE REASONABLY GOOD. FOR EXAMPLE, COFFEE IS 90 US CENTS PER POUND FOB DJIBOUTI, AN ALL-TIME HIGH. NOT ONLY DOES THE ABSENCE OF INVESTMENT IMPUTS REDUCE ETHIOPIA'S PROSPECTS FOR FUTURE GROWTH, IT ALSO ELIMINATES THE POSSIBILITY OF USING SOME OF THE NEWLY ESTABLISHED INTER-NATIONAL FINANCIAL FACILITIES THAT ASSIST DEVELOPING COUNTRIES.

8. COMMENT.

AS IS APPARENT FROM THE FOREGOING, ETHIOPIA'S ECONOMIC SITUATION IS MIXED. AGRICULTURAL AND MANUFACTURING OUTPUT IS VERY GOOD, CONSIDERING THE ECONOMIC AND SOCIAL REFORMS THE COUNTRY HAS

EXPERIENCED DURING THE PAST YEAR. PARTLY THIS CAN BE ATTRIBUTED TO GOOD FORTUNE AND PARTLY TO GOOD PERFORMANCE BY THE GOVERNMENT. RETAIL TRADE AND THE EXTERNAL SECTOR ARE ALSO IN GOOD SHAPE.

ON THE OTHER HAND, THE GOVERNMENT HAS FAILED TO SOLVE MANY OF THE PROBLEMS ARISING FROM ITS REFORMS. PERHAPS THE MOST SERIOUS SHORT RUN (AND MAYBE LONG RUN) PROBLEM IS THE SHARP INCREASE IN THE RATE OF INFLATION. WHILE THE GOVERNMENT INTENDS, AS A MATTER OF POLICY, TO INCREASE FARM GATE PRICES IT MAY TURN OUT THAT THE METHOD EMPLOYED WILL HAVE UNMANAGEABLE REPERCUSSIONS ON FOOD PIRCES IN THE URBAN AREAS WHICH GO FAR BEYOND THE INTENTIONS OF POLICY MAKERS. THE SAME IS TRUE REGARDING DEFICIT FINANCE; UNCLASS CAREFULLY MANAGED, PRESSURE ON PRICES OR IMPORTS (OR BOTH) RESULTING FROM THE INCREASED MONEY SUPPLY COULD HAVE SERVERE REPRECUSSIONS FOR THE ECONOMY. ANOTHER MAJOR FAILURE HAS BEEN THE GOVERNMENT'S INABILITY TO RESTORE CONFIDENCE IN THE PRIVATE SECTOR. IN SPITE OF A MODERATE LABOR LAW, NEW REGULATIONS CLARIFYING USE OF URBAN LAND, A NEW COMMERCIAL CODE AND NO FURTHER NATIONALIZATIONS FOR THE LAST SEVERAL MONTHS, THE PRIVATE SECTOR STILL RETAINS ITS SKEPTICAL ATTITUDE ABOUT THE GOVERNMENT'S ULTIMATE INTENTIONS. THIS IS PARTLY BECAUSE OF PREVIOUS "SOCIALIST" ACTIONS BY THE GOVERNMENT AND PARTLY BECAUSE OF THE STRONG PROPAGANDA CAMPAIGN AGAINST THE MIDDLE CLASS. AS A RESULT, PRIVATE INVESTMENT IN TRUCKS, SMALL BUSINESSES AND PRIVATE DWELLINGS IS ALMOST NON-EXISTANT. THIS MAY BE CHANGING VERY GRADUALLY, ESPECIALLY REGARDING CONSTRUCTION OF PRIVATE HOMES (1500 PERSONS HAVE ALLEGEDLY REGISTERED WITH THE MUNICIPALITY TO BUILD NEW DWELLINGS). NEVERTHELESS, IT WILL REQUIRE CONSIDERABLE ADDITIONAL EFFORT ON THE PART OF THE GOVERNMENT TO RESTORE CONFIDENCE. THE DELAY IN PROMULGATING A NEW INCOME TAX LAW AND AN INCOMES POLICY, WHICH ESPECIALLY WORRY THE MIDDLE CLASS, ONLY AGGRAVATE THIS SITUATION. FINALLY IT SHOULD BE NOTED THAT THE GOVERNMENT'S OWN INVESTMENT PROGRAM FOR THE INDUSTRIAL SECTOR IS LAGGING. ABSENCE OF NEW PUBLIC SECTOR INVESTMENT IN INDUSTRY WAS UNDERSTANDABLE FOR THE FIRST FEW MONTHS AFTER NATIONALIZATION. NOW THAT A YEAR HAS PAST, THIS EXPLANATION IS NO LONGER ADEQUATE. APPARENTLY THE GOVERNMENT HAS BEEN FOCUSSED ALMOST ENTIRELY ON RUNNING WHAT IT HAS TAKEN OVER. THERE ALSO APPEARS TO BE AN UNWILLINGNESS TO MAKE DECISIONS, ESPECIALLY IN THE PLANNING COMMISSION. OBVIOUSLY THIS WILL HAVE TO CHANGE SOON IF THE GOVERNMENT IS GOING TO BRING ABOUT GROWTH IN THIS SECTOR. PERHAPS EVEN MORE IMPORTANT, GOVERNMENT POLICIES ARE INCREASING

PURCHASING POWER AMONG THE LOWER CLASSES (URBAN WORKERS AND PEASANTS), WHICH MEANS MORE CONSUMER GOODS WILL HAVE TO BE PRODUCED (OR IMPORTED) IF MASSIVE INFLATION IS TO BE AVOIDED.

IN SUM, THE GOVERNMENT HAS DONE A COMMENDABLE JOB OF MANAGING THE TRANSITION FROM PRIVATE TO PUBLIC OWNERSHIP OF THOSE ECONOMIC ACTIVITIES WHICH HAVE BEEN NATIONALIZED. THE CHALLENGE NOW IS TO MOVE FORWARD WITH PUBLIC INVESTMENT IN INDUSTRY AND COMMERCIAL FARMING, RESTORE PRIVATE SECTOR CONFIDENCE, AND CONTROL INFLATION. SO FAR, LITTLE OR NO PROGRESS HAS BEEN MADE IN THESE DIRECTIONS.

HUMMEL

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGRICULTURAL PRODUCTION, ECONOMIC CONDITIONS, COFFEE, LABOR RELATIONS, MARKET SURVEYS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ADDIS01899
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760058-1079
From: ADDIS ABABA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760245/aaaabnco.tel
Line Count: 493
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 20 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 APR 2004 by greeneet>; APPROVED <01 JUL 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ETHIOPIA'S CURRENT ECONOMIC SITUATION
TAGS: EGEN, EALR, ET
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006